

Message Text

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ACTION AF-08

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04
SIL-01 L-03 H-01 PA-01 PRS-01 AGRE-00 ABF-01 /095 W
-----121226Z 009235 /10

R 111640Z MAR 77

FM AMEMBASSY KINSHASA
TO SECSTATE WASHDC 2231
INFO AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS

C O N F I D E N T I A L KINSHASA 2160

DEPT PASS EXIM, COMMERCE, TREASURY

E.O. 11652: GDS

TAGS: EFIN CG

SUBJ: ECONOMIC AND BALANCE OF PAYMENTS OUTLOOK - 1977 AND 1978

REF: KINSHASA 9878

1. SUMMARY: THIS CABLE UPDATES AND REVISES BOP PROJECTIONS OFFERED REFTEL. ON BALANCE, THE OUTLOOK FOR 1977 REMAINS DEPRESSED. EXPORTS MAY BE SOMEWHAT HIGHER THAN PREVIOUSLY PROJECTED BUT IT NOW APPEARS THAT THE IMPACT OF NEW PRIVATE CREDITS UNDER THE LONDON AGREEMENT MAY BE DELAYED UNTIL LATE 1977 AND 1978. THE TOTAL FINANCIAL GAP (ASSUMING IMPORTS ARE PEGGED AT A LEVEL TO PERMIT FOUR PERCENT ECONOMIC GROWTH) SHOULD BE ON THE ORDER OF 150 MILLION. IF THIS GAP IS NOT FILLED WE WOULD ESTIMATE THAT DIMINISHED IMPORTS WOULD CONSTRICT THE LEVEL OF ECONOMIC GROWTH TO AROUND 1.5 PERCENT. THE OUTLOOK FOR 1978 DEPENDS GREATLY ON THE EVOLUTION OF WORLD ECONOMIC CONDITIONS BUT OUR PRESENT PROJECTIONS INDICATE A CONTINUATION OF PRESENT FINANCIAL PROBLEMS. END SUMMARY.

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2. SINCE THE PREPARATION OF REFTEL WE HAVE HAD THE OPPORTUNITY TO LOOK AT SOME IMF ANALYSES OF ZAIRE'S BOP PROSPECTS. TO BE CONSISTENT WITH THE FORMAT OF IMF PRESENTATIONS, WE HAVE COMBINED IMPORTS OF GOODS AND SERVICES INTO A SINGLE CATEGORY AND HAVE RE-ESTIMATED THE LEVEL OF IMPORTS OF GOODS AND SERVICES (NOT INCLUDING INTEREST ON DEBT) REQUIRED TO SUPPORT FOUR PERCENT

REAL ECONOMIC GROWTH. WE HAVE ALSO TAKN INTO ACCOUNT RECENT EVENTS SUCH AS THE IMPLEMENTATION OF THE LONDON AGREEMENTS AND THE INTENSIFICATION OF THE FUEL CRISIS.

3. ON BALANCE, THE OUTLOOK FOR 1977 REMAINS DEPRESSED. AS ZAIRE HAS ATTEMPTED TO OBECOME CURRENT ON ITS PRIVATE DEBT, IMPORTS HAVE BEEN CONSTRICTED EVN MORE TIGHTLY THAN BEFORE. THE MOST DRAMATIC EXAMPLE IS POL PRODUCTS, FORWHICH THERE HAS BEEN TIGHT RATIONING FOR SEVERAL WEEKS. WHILE HARD FIGURES ARE NOT AVAILABLE, IT IS CLEAR THAT THE INTENSIFIED SHORTAGE OF GASOLINE, FUEL OIL AND RELATED PRODUCTS WILL SIGNIFICANTLY CUT FIRST QUARTER PRODUCTION LEVELS AND WILL PROBABLY AFFECT SECOND QUARTER PERFORMANCE AS WELL.

4. THE GOZ BUDGET DEFICIT FOR 1976 (WHICH THE IMF ESTIMATED AT OVER 300 MILLION ZAIRES) CARRIED WITH IT THE SEEDS OF CONTINUED UPWARD PRESSURE ON LOCAL PRICES AND WAGES. THIS WILL COMPOUND THE PROBLEMS FACED BY THE EXPORT SECTOR, PARTICULARLY GECA-MINES, IN COMPETING IN WORLD MARKETS. CONTINUING PROLEMS IN PRODUCTION, TRANSPORTATION AND QUALITY CONTROL WILL PREVENT THE EXPORT SECTOR FROM TAKING FULL ADVANTAGE OF THE RECENT FAVORABLE PRICE TRANDS OF SOME EXPORT CROPS. OVERALL, OUR 1977 BOP ANALYSIS (FINANCIAL SETTLEMENTS BASIS) LOOKS AS FOLLOWS IN MILLIONS OF US DOLLARS:

CURRENT ACCOUNT RECEIPTS	1524
(OF WHICH EXPORT REVENUES)	(1334)
EXPENDITURES	
OF WHICH	-2013
(DEBT SERVICES - P&I)	(-413)

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(GOODS AND SERVICES)	(-1500)
(OTHER DEBITS)	(-100)
GROSS FINANCIAL GAP	-489
FINANCED BY	
IMF	113
NEW BANK CREDITS	125
NEW PUBLIC CREDITS	100
NET FINANCIAL GAP	-156

5. IN FORMULATING THE ABOVE BALANCE OF PAYMENTS WE HAVE BOOSTED ESTIMATED EXPORT EARNING TO ABOUT \$1334 MILLION TO TAKE INTO ACCOUNT THE LIKELIHOOD OF INCREASING EARNINGS FROM COFFEE, TIN, COPPER AND OTHER EXPORTS WHOSE WORLD PRICES HAVE BEEN MOVING UPWARD. OUR NEW ESTIMATE OF IMPORTS REQUIREMENTS ARE BASED ON A REFINED ANALYSIS OF CNP AND IMPORT DATA FROM 1967-1974. WE HAVE ALSO UPDATED INFORMATION ON GOZ'S DEBT OBLIGATIONS. UNDER THE LONDON AGREEMENT THE GOZ WILL HAVE TO REPAY IN 1977 APPROX \$60 MILLION IN ARREARAGES DATING BACK TO 1976 AND REVIOUS. (THIS CONSISTS OF THOSE PRINCIPAL PAYMENTS STILL OUTSTANDING AFTER

THE GOZ PAYMENT OF \$40 MILLION IN INTEREST TO PRIVATE SYNDICATED BANKS LATE IN 1976). IN ADDITION THE GOZ IS REQUIRED TO KEEP CURRENT ON ITS PRIVATE SYNDICATED BANK PAYMENTS THROUGHOUT 1977. THE IMF FORESEES OTHER DEBT PAYMENTS NOT OWED OR GUARANTEED BY THE GOZ OF ABOUT \$70 MILLION IN 1977. THIS COULD BOOST TOTAL DEBT PAYMENTS TO ROUGHLY \$413 MILLION, EVEN IF THE PARIS CLUB AGREEMENT IS EXTENDED TO COVER 1977 MATURITIES OF PUBLIC DEBT.

6. IT NOW APPEARS UNLIKELY THAT THE MAJORITY OF THE NEW PRIVATE CREDITS PROMISED UNDER THE LONDON AGREEMENT WILL BE DISBURSED DURING CALENDAR YEAR 1977. GIVEN THE LAGS INHERENT IN PUTTING THESE PROGRAMS IN OPERATION, ZAIRE WILL BE FORTUNATE TO RECEIVE HALF OF THE CREDITS (ROUGHLY \$125 MILLION) THIS YEAR. WHEN IMF RESOURCES (\$113 MILLION) AND NEW NON-PROJECTED RELATED PUBLIC CREDITS (PERHAPS \$100 MILLION) ARE TAKEN INTO ACCOUNT, THE NET FINANCIAL GAP FOR THE YEAR APPEARS TO BE ON THE ORDER OF \$156 MILLION.

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7. IF NOT BRIDGED, THIS WOULD REQUIRE THAT IMPORTS OF GOODS AND SERVICES BE HELD TO \$1344 MILLION. OUR REGRESSION OF IMPORT AND GNP DATA SUGGESTS THAT SUCH AN IMPORT LEVEL WOULD RESTRICT REAL GNP GROWTH TO ABOUT 1.5 PERCENT. WITH AN ESTIMATED POPULATION GROWTH RATE OF 2.8 PERCENT, THIS WOULD MEAN A FALL IN REAL PER CAPITA INCOME OF ABOUT 1.3 PERCENT.

8. THE OUTLOOK FOR 1978 DEPENDS A GREAT DEAL ON WORLD ECONOMIC CONDITIONS THEN (ESPECIALLY COMMODITY PRICES) AND HOW SUCCESSFULLY ZAIRE BRIDGES ITS FINANCIAL GAP IN 1977. IF THE SUPPLY POSITION IMPROVES AND COMMODITY PRICES INCREASE, EXPORT RECEIPTS COULD CONCEIVABLY RISE TO \$1700 MILLION, BRINGING TOTAL CURRENT ACCOUNT RECEIPTS TO \$1900 MILLION. IMPORTS OF GOODS AND SERVICES WOULD TAKE \$1661 MILLION AND OTHER DEBITS PERHAPS \$100 MILLION. GIVEN THE NEW LOANS ZAIRE IS NOW UNDERTAKING, DEBT SERVICE REQUIREMENTS WILL EXCEED THE \$482 MILLION REPORTED REFTEL. THE BOP SITUATION WOULD THUS LOOK AS FOLLOWS (IN MILLIONS OF US DOLLARS):

CURRENT ACCOUNT RECEIPTS	1900
(OF WHICH EXPORT REVENUES)	(1700)
EXPENDITURES	2311
(DEBT SERVICE-P&I)	(-550)
(GOODS AND SERVICES)	(-1661)
(OTHER DEBITS)	(-100)
GROSS FINANCIAL GAP	-411
FINANCED BY	
NEW BANK CREDITS	-83
NEW PUBLIC CREDITS	-100
PUBLIC DEBT RESCHEDULING	-118
REMAINING FINANCIAL GAP	-210

9. THE NET FINANCIAL GAP IN 1978 IS ON THE ORDER OF \$210
MILLION. IF NOT BRIDGED, THIS WOULD REQUIRE THAT 1978 IMPORTS
BE HELD TO \$1451 MILLION. WE ESTIMATE THAT THIS WOULD RESTRICT
REAL GNP GROWTH TO ABOUT 1.0 PCT. WITH POPULATION GROWTH OF
2.8 PCT, THIS WOULD MEAN A FURTHER FALL IN REAL PERCAPITA
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INCOME OF ABOUT 1.8 PCT.

10. FOREGOING DOES NOT TAKE INTO ACCOUNT THE EFFECTS OF THE
CURRENT INVASION FROM ANGOLA.
WALKER

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NNN

Message Attributes

Automatic Decaptioning: X
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Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC ESTIMATES, BALANCE OF PAYMENTS
Control Number: n/a
Copy: SINGLE
Sent Date: 11-Mar-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
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